

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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A REVIEW OF CALIFORNIA'S CONTRACTS  
FOR IN-HOME SUPPORTIVE SERVICES

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REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

P-712

A REVIEW OF CALIFORNIA'S CONTRACTS  
FOR IN-HOME SUPPORTIVE SERVICES

SEPTEMBER 1988



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STATE OF CALIFORNIA

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Auditor General

September 21, 1988

P- 712

Honorable Bruce Bronzan, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 448  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning contracts for In-Home Supportive Services. The report indicates a need for improved oversight by the Department of Social Services of counties' contracts for these services and better control over the department's reimbursements to the counties for their contract expenditures.

Respectfully submitted,

*thomas w. hayes*  
THOMAS W. HAYES  
Auditor General

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>SUMMARY</b>   | S-1         |
| <b>INTRODUCTION</b>  | 1           |
| <b>AUDIT RESULTS</b>   |             |
| I    THE DEPARTMENT OF SOCIAL SERVICES<br>AND THE COUNTIES DID NOT ALWAYS FOLLOW<br>THE PROVISIONS GOVERNING CONTRACTS<br>FOR IN-HOME SUPPORTIVE SERVICES      | 7           |
| CONCLUSION   | 15          |
| RECOMMENDATIONS  | 16          |
| II   THE DEPARTMENT OF SOCIAL SERVICES<br>AND THE COUNTIES HAVE NOT FULLY ENSURED<br>THAT COSTS OF CONTRACTS FOR IN-HOME<br>SUPPORTIVE SERVICES ARE REASONABLE | 17          |
| CONCLUSION   | 29          |
| RECOMMENDATIONS  | 29          |
| <b>APPENDICES</b>  |             |
| A    ESTIMATED REIMBURSEMENT RATES FOR CONTRACTS<br>FOR IN-HOME SUPPORTIVE SERVICES IN SIX COUNTIES<br>DURING VARIOUS PERIODS FROM 1985 THROUGH 1988           | 33          |
| B    CONTRACTORS FOR IN-HOME SUPPORTIVE SERVICES<br>FOR VARIOUS PERIODS FROM DECEMBER 1, 1983 TO JUNE 30, 1988   | 35          |
| C    SUMMARY OF A PREVIOUS REPORT BY THE<br>OFFICE OF THE AUDITOR GENERAL<br>CONCERNING THE IN-HOME SUPPORTIVE SERVICES PROGRAM                                | 37          |
| <b>RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT</b>  |             |
| HEALTH AND WELFARE AGENCY<br>Department of Social Services   | 39          |
| <b>THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS<br/>ON THE RESPONSE OF THE DEPARTMENT OF SOCIAL SERVICES</b>   | 45          |

## SUMMARY

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### RESULTS IN BRIEF

The State's In-Home Supportive Services (IHSS) program is funded by the federal, state, and county governments. In fiscal year 1987-88, contracts to provide IHSS were worth approximately \$39.7 million, or 9 percent of the total IHSS program expenditures. Counties administer IHSS contracts locally; the Department of Social Services (department) is responsible for the approval and oversight of IHSS contracts statewide.

Although most of the contract costs that we analyzed for seven original IHSS contracts and five renewed IHSS contracts were reasonable, neither the department nor the six counties that we reviewed have fully complied with the provisions governing these contracts, nor have they ensured that contract costs are reasonable. As a result, the department and the counties have missed opportunities to reduce the costs of IHSS contracts, and the interests of the State and the counties have not been fully protected. Some examples of noncompliance by the department and the counties and of missed opportunities to reduce costs are listed below:

- Contractors for IHSS provided services before their contracts were approved;
- The department reimbursed two counties for more than the maximum amount allowed by the counties' IHSS contracts;
- For the six IHSS contracts that five of the counties had renewed, the contractors' reimbursement rates were not based on documented costs, as required by law;
- Five of six counties in our sample have not always followed the department's directives for implementing cost of living allowances (COLAs) for the employees of IHSS contractors; and

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- For two of the six counties in our sample, invoices from the counties' IHSS contractors were not accurate.
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## BACKGROUND

The IHSS program provides services to low-income aged, blind, or disabled persons who are unable to remain in their homes without assistance. Services provided through the program include meal preparation, cleaning, and assistance with personal care. The department is responsible for oversight of the program statewide, and the counties administer the program locally. In fiscal year 1987-88, the federal, state, and county governments spent an estimated \$454.8 million for IHSS.

Clients receive IHSS in one of three ways: clients may select an individual provider themselves; counties may contract with agencies to provide services to clients; or the counties themselves may provide services directly to the clients. Counties may choose one of these three methods or a combination of the three. In fiscal year 1987-88, 17 counties had contracts for IHSS; costs for the contracts in these 17 counties were estimated at \$39.7 million, or approximately 9 percent of all estimated IHSS program expenditures.

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## PRINCIPAL FINDINGS

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### IHSS Contractors Are Working Before Contracts Are Approved

For all seven original IHSS contracts that we reviewed and all six renewed IHSS contracts that we reviewed, the counties' contractors began providing services, and, in most cases, the counties paid for these services before the department had approved the contracts. The contractors worked from 22 days to 12 months before their contracts were approved. When IHSS contractors provide services without approved contracts, the interests of the

counties and the State are not fully protected. Further, the department reimbursed one county without an approved IHSS contract.

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#### Reimbursements to Counties Exceeded Contract Maximums

The department reimbursed the City and County of San Francisco and Riverside County, for more than the maximum amount allowed under the terms of the counties' IHSS contracts. The reimbursements to the City and County of San Francisco were for contract expenditures under a contract that the department eventually approved. The department is currently processing revised expense-claim forms from Riverside County that account for the approximately \$165,000 in excessive reimbursement that the department provided to the county.

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#### Failure To Ensure That Contract Costs Are Reasonable

The department is required to review and approve all IHSS contracts, contract amendments, and contract renewals. Although most of the contract costs that we analyzed for seven original IHSS contracts and five renewed IHSS contracts were reasonable, the department and the counties have not fully complied with the laws governing IHSS contracts nor ensured that the costs of these contracts are reasonable. Specifically, the department has not required the counties to base the hourly reimbursement rates of their IHSS contractors during the renewal year of their contracts on documented costs, as required by law. In addition, the department has not always thoroughly reviewed counties' contract amendments implementing COLAs for the contract providers of IHSS, and it has not ensured that counties monitor the accuracy of the invoices of their IHSS contractors. As a result, the department cannot be certain that the reimbursement rates of IHSS contractors reflect only reasonable costs, and some IHSS contracts have cost more than they should have. For

example, IHSS contracts in two counties cost approximately \$49,000 more than they should have because the counties did not correctly implement contract amendments for COLAs for the providers of the counties' IHSS contractors.

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## RECOMMENDATIONS

To fully protect the interests of the State and the counties and ensure that the costs of contracts for In-Home Supportive Services are reasonable, the Department of Social Services should take the following actions:

- Enforce the deadlines specified in the department's regulations for the submittal and approval of documents related to IHSS contracts;
- Authorize reimbursements only to counties that have approved IHSS contracts and for no more than the counties' contract maximums;
- For the renewal year of IHSS contracts, require counties to base their contractors' reimbursement rates on documented costs;
- Ensure that cost of living allowances in counties' amendments to their IHSS contracts are properly implemented;
- Require counties to monitor the accuracy of the invoices that they receive from their IHSS contractors; and
- Periodically review the counties' monitoring programs for IHSS contracts.

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**AGENCY COMMENTS**

The Department of Social Services agrees with five of the six recommendations. The department does not agree that it should require counties to base renewal year reimbursement rates on documented costs.

## INTRODUCTION

The In-Home Supportive Services (IHSS) program provides care to low-income persons who are aged, blind, or disabled and who are unable to remain safely in their own homes without assistance. To assist persons to remain in their own homes, the IHSS program provides clients with a variety of services, including the performance of domestic chores such as sweeping, vacuuming, changing bed linen, preparing meals, and shopping for food, and the provision of nonmedical personal care such as assistance with dressing, bathing, and walking. In addition, IHSS providers may accompany clients to medical appointments.

The Department of Social Services (department) has the authority and responsibility for oversight of the IHSS program statewide, and county welfare departments administer the program at the local level. The department formulates regulations, allocates funds, and is responsible for monitoring the counties' expenditures. County caseworkers determine a person's eligibility for services, assess the type and amount of services a client needs, and arrange for the provision of services.

According to the department, the IHSS program had an estimated 127,900 clients in fiscal year 1987-88. Each county welfare department used one of three methods, or a combination of these methods, to deliver services to these IHSS clients. In fiscal year 1987-88,

according to the department, approximately 108,100 IHSS clients (84.5 percent) received services from individual providers selected by clients; approximately 18,300 clients (14.3 percent) received services from private agencies under contract to counties; and, approximately 1,500 clients (1.2 percent) received services directly from county employees. According to the department, in fiscal year 1987-88, all counties used the individual provider method of providing services, 17 counties used IHSS contracts, and 20 county welfare departments provided services directly to IHSS clients.

The federal, state, and county governments fund the IHSS program. The department estimates that the IHSS program spent \$454.8 million in fiscal year 1987-88. According to the legislative analyst, the federal government provided an estimated 61.1 percent of the funds for the IHSS program, the State's General Fund provided an estimated 34.3 percent, and the counties provided the remaining 4.6 percent. In fiscal year 1987-88, the IHSS program spent an estimated \$406.7 million (89 percent) for individual providers, an estimated \$39.7 million (9 percent) for IHSS contracts, and the remaining \$8.4 million for the provision of services by county welfare departments. Since this report focuses on IHSS contracts, Appendix A presents the reimbursement rates that six counties paid to their IHSS contractors during various periods from 1985 through 1988.

## SCOPE AND METHODOLOGY

The purpose of this audit was to review IHSS contracts that were in effect in fiscal year 1986-87 to evaluate the department's and the counties' compliance with the statutes and regulations governing IHSS contracts. Eighteen counties had such contracts, and we reviewed seven contracts in six counties. We focused on the department's and the counties' compliance with statutes and regulations concerning the counties' selection of contractors, the counties' monitoring of contractors, and the counties' renewal of IHSS contracts.

To review IHSS contracts in effect in fiscal year 1986-87, we selected one contract for each of seven contractors who held an IHSS contract in that fiscal year. Appendix B presents the seven contractors and six counties that were parties to the contracts that we reviewed and the beginning and ending dates of the contracts; one county had two IHSS contracts concurrently.

As a part of our review of the department's compliance with the statutes governing IHSS contracts, we reviewed the department's implementation of regulations required by statute since 1973. We found that the department did not develop and implement all regulations required by Section 12300 et seq. of the Welfare and Institutions Code until August 1987. However, we could not document the effects of the department's failure to develop and implement all required regulations. In evaluating the department's and counties' compliance

with the regulations governing IHSS contracts, we used the regulations in effect before August 1987 because the contracts that we reviewed were awarded or renewed before this date.

We reviewed contract files at the department and in the counties listed in Appendix B to evaluate the department's and the counties' compliance with the laws governing the selection of contractors. The counties generally complied with the applicable statutes and regulations for selecting contractors. However, we could not test for compliance with all applicable statutes and regulations because some of these laws allowed or required subjective decisions by county officials.

We also reviewed contract files to evaluate the department's and the counties' compliance with the laws governing contract renewals. We visited the six contractors listed in Appendix B that had renewed contracts, and we reviewed records concerning their contract costs. As a part of our review of the City and County of San Francisco's renewed IHSS contract, we reviewed the costs related to the pension plan for the contractor's IHSS providers; the IHSS contract in this county is the only one that includes provisions for a pension plan for an IHSS contractor's providers.

To evaluate the counties' monitoring of their contractors, we reviewed the counties' audit reports, their monitoring reports, and their procedures for ensuring the accuracy of their contractors'

invoices. We also reviewed audit reports issued by the State Controller's Office for the IHSS contracts included in our review. To determine whether the counties were ensuring that contractors' invoices were accurate, we obtained and reviewed invoices and client-billing reports submitted by the contractors to the counties for at least a six-month period.

In determining the accuracy of the hours of service reported on the client-billing reports, we selected random samples of IHSS clients from the reports and obtained and reviewed the timesheets of their providers. Our minimum sample size was 60 and our maximum sample size was 222. For the purposes of our review, we concluded that a contractor's client-billing report was accurate if we could conclude with a 95 percent level of confidence that no more than 5 percent of the hours of service reported for all clients on the client-billing report were erroneous.

Further, during our audit, we found that some county welfare departments required new IHSS contractors to offer employment to certain persons and to provide specific wage and benefit packages to their employees. To determine whether the counties' requirement was appropriate, we obtained an opinion from the Legislative Counsel. The opinion, dated June 9, 1988, stated that county welfare departments are required by the department to require new IHSS contractors to offer employment to the employees of the former IHSS contractor and to independent providers hired by clients. In addition, according to the

Legislative Counsel, there is no provision of state or federal law that prevents a county welfare department from requiring new IHSS contractors to provide their employees with specific wage and benefit packages.

Finally, we presented the results of the audit to each of the county welfare departments and contractors whose IHSS contracts we reviewed. We took the concerns of the county welfare departments and the contractors into consideration in the audit report.

## AUDIT RESULTS

### I

#### THE DEPARTMENT OF SOCIAL SERVICES AND THE COUNTIES DID NOT ALWAYS FOLLOW THE PROVISIONS GOVERNING CONTRACTS FOR IN-HOME SUPPORTIVE SERVICES

Contractors for In-Home Supportive Services (IHSS) provided services without approved contracts, and counties paid for these services without approved contracts. In addition, the Department of Social Services (department) reimbursed one county without an approved IHSS contract and two counties for more than the maximum amount allowed by the counties' IHSS contracts. Although the department eventually approved the counties' IHSS contracts, the interests of the State and the counties were not fully protected before these approvals. Further, the department provided one county approximately \$165,000 in excessive reimbursement.

#### Services Provided and Paid for Without Approved Contracts

If a county chooses to contract for the provision of IHSS, then a county must first prepare an Invitation for Bid (IFB), unless it is authorized by the department to use the request for proposal method of selecting a contractor. After preparing the IFB, a county must submit the IFB to the department for approval. After the department approves the IFB, the county informs prospective bidders

of the county's intent to contract for IHSS and when and where the prospective bidders may obtain information about the IFB.

After the closing date for accepting bids, the county is required to evaluate all of the bids that it has received and usually awards the contract to the bidder whom the county determines is capable of providing the required services at the lowest price. The county can award the contract to a bidder other than the lowest bidder if the department approves the award and certain conditions are met. After the award of the contract, the county must hold a public hearing and allow a certain amount of time within which bidders may protest the contract award.

To complete the last steps in the contracting process, representatives of the county and the contractor sign the agreement that will be the final contract if it is approved by the department. The county then sends the agreement signed by the county and the contractor to the department for review and approval. When the department approves the agreement, it informs the county through a letter that the contract is approved and that the county may claim reimbursement from the department for its contract expenditures. This letter constitutes the department's written approval of the contract, as required by law.

Section 12302.1(a) of the Welfare and Institutions Code specifies that all IHSS contracts awarded or renewed are subject to the department's prior review and approval. Section 12302.1(a) also specifies that no IHSS contract can take effect until approved in writing by the department.

For all seven original IHSS contracts that we reviewed and for all six renewed contracts that we reviewed, the counties' contractors began providing services before the department had approved the contracts. For the seven original contracts, the length of time between the dates that the contractors began providing service and the dates that the department approved the contracts ranged from one month to 5 months; the average length of time between the dates was 3 months. For example, in Nevada County, the IHSS contractor started providing services on August 1, 1984, as specified in its IHSS contract; however, the department did not approve the contract until November 14, 1984, over 3 months or 105 days later.

For the six renewed contracts, the length of time between the dates that the contractors began providing service and the dates that the department approved the contract renewals ranged from 22 days to 12 months; the average length of time between the dates was 5 months. For example, in Santa Clara County, the IHSS contractor started providing services on December 1, 1985, as specified in its renewed IHSS contract; however, the department did not approve the contract until March 12, 1986, over 3 months or 101 days later.

The department did not approve the IHSS contracts that we reviewed by the dates that services were scheduled to begin because the counties did not always submit their contract-related documents far enough in advance of these dates and because the department did not always review the counties' contract-related documents promptly. For example, in 6 of the 11 instances in which we could determine when counties requested final approval of their original IHSS contracts or renewed IHSS contracts, the counties requested approval after the date that the contractor was scheduled to begin providing services. In addition, in 7 of the 10 instances in which we could determine when the department approved original IHSS contracts or renewed IHSS contracts, the date of approval was more than two months after the approval was requested by counties; in 3 of the 7 instances, the approval took more than four months.

When IHSS contractors provide services without approved contracts, the interests of the counties and the State are not fully protected. For example, as indicated in Section 23-630.6 of the department's Manual of Policies and Procedures, counties may not be eligible for state reimbursement of the counties' costs for unapproved contracts, and the State may not be eligible for federal reimbursement of state costs for unapproved contracts. In addition, IHSS recipients could face a break in service if a contractor providing services without a valid contract stopped providing services and the county had to find other means of providing the services. Some of the approved

contracts that we reviewed required contractors to assist the counties in ensuring a smooth transition in the provision of services by another contractor, if necessary. In addition, the department implemented a model IHSS contract on October 27, 1987, that requires a contractor to assist the county in the transfer of the IHSS program, if necessary.

The department implemented regulations in August 1987 that established deadlines within which counties should submit contract-related documents and within which the department's staff should approve or disapprove these documents.

All six counties in which we reviewed IHSS contracts also paid contractors that provided services to IHSS clients before the department approved the counties' original contracts or renewed contracts. The counties' payments were for services rendered by contractors during the stated terms of the contracts as later approved by the department; these payments totaled \$8,734,777 and are detailed by county in Table 1.

**TABLE 1**  
**COUNTY PAYMENTS TO CONTRACTORS  
BEFORE DEPARTMENT APPROVAL**

| <u>County</u> | <u>Payment</u>     |
|---------------|--------------------|
| San Francisco | \$6,039,413        |
| Riverside     | 1,026,192          |
| Santa Clara   | 966,177            |
| Nevada        | 370,912            |
| Mendocino     | 266,742            |
| Humboldt      | <u>65,341</u>      |
| Total         | <u>\$8,734,777</u> |

In addition to the payments made by counties, the department reimbursed Nevada County at least \$206,348 for payments that the county made to its contractor before the department approved the renewed contract. The department's reimbursements to Nevada County would have been appropriate if the department had approved the county's renewed IHSS contract in writing. We conclude that the department made these reimbursements because it did not ensure that its staff in its administrative claims unit of the fiscal policy and procedures bureau authorized reimbursements only to counties with approved contracts.

Reimbursements to Counties  
Exceeded Contract Maximums

Each IHSS contract approved by the department specifies a maximum amount of contract expenditures for which the department will reimburse the county. The department calls this amount the "contract maximum." Counties normally request reimbursement every three months for their IHSS contract expenditures, as well as for other reimbursable costs of social services programs. When a county requests reimbursement for its IHSS contract expenditures, the county must use the department's administrative expense-claim form and specify the contract number and the amount of contract expenditures for which it is claiming reimbursement. The department's staff members in the administrative claims unit review the county's expense-claim form and determine the amount for which the department will reimburse the county. If the department's staff members determine that reimbursing the county the full amount of its claim would result in total reimbursements to date exceeding the contract maximum, then it is reasonable to conclude that the department's staff members should disallow the portion of the claim that would result in excessive reimbursement.

For the seven original contracts and six renewed contracts that we reviewed, counties requested reimbursements exceeding their contract maximums in five instances. The department correctly disallowed three of the five county claims that exceeded their contract

maximums. However, in two of the five instances, the department's reimbursements to the counties exceeded the counties' contract maximums.

In one instance, Riverside County submitted an expense-claim form to the department for \$1,062,771 in contract expenditures from September 1, 1987, through December 31, 1987. The department approved the expense-claim form in full even though the amount that the department could reimburse the county without exceeding the county's contract maximum was \$897,873. As a result, the department reimbursed the county approximately \$165,000 more than its contract maximum. In addition, we estimate that the State lost approximately \$4,300 in interest income because of this payment. On June 2, 1988, Riverside County submitted revised expense-claim forms to the department that reduced the county's claims for the quarters ending September 30, 1986, and June 30, 1987, to account for the approximately \$165,000 in excessive reimbursement that it received. The department is currently processing the county's revised expense-claim forms.

In the second instance, the City and County of San Francisco submitted two expense-claim forms to the department for a total of \$3,562,841 in contract expenditures from July 1, 1985, through December 31, 1985. The department authorized reimbursement for the full amount of the two claims. However, the contract for which the county was claiming reimbursement for its expenditures during this six-month period ended August 31, 1985. In addition, the maximum

amount that the department could reimburse the county without exceeding the county's contract maximum then in effect was approximately \$1,760,444. As a result, the department reimbursed the county approximately \$1,802,397 more than its contract maximum.

The county's claims for reimbursement for approximately \$1,802,397 were legitimate in that the county had paid the contractor for services provided after August 31, 1985. However, the department had not approved a contract for the period after this date. Since only approved contracts have contract numbers, the county did not have a contract number to use in claiming reimbursement for its contract-related expenditures after August 31, 1985. Thus, the county used the contract number from its previous contract.

The department reimbursed Riverside County and the City and County of San Francisco for more than the maximum amount allowed by their contracts because the department did not ensure that its staff in its administrative claims unit only authorized reimbursements to counties that were within their contract maximums and that had approved contracts.

#### CONCLUSION

Contractors for In-Home Supportive Services provided services without approved contracts, and counties paid for these services without approved contracts. In addition, the

Department of Social Services reimbursed one county without an approved IHSS contract and two counties for more than the maximum amount allowed by the counties' IHSS contracts. Although the department eventually approved the counties' IHSS contracts, the interests of the State and the counties were not fully protected before these approvals. Further, the department provided one county approximately \$165,000 in excessive reimbursement.

#### RECOMMENDATIONS

To ensure that the interests of the State and the counties are fully protected, the Department of Social Services should take the following actions:

- Enforce the deadlines specified in the department's regulations for counties to submit documents related to contracts for In-Home Supportive Services, and enforce the deadlines for the department to approve these documents; and
- Authorize reimbursements only to counties that have approved IHSS contracts and for no more than the counties' contract maximums.

## II

### THE DEPARTMENT OF SOCIAL SERVICES AND THE COUNTIES HAVE NOT FULLY ENSURED THAT COSTS OF CONTRACTS FOR IN-HOME SUPPORTIVE SERVICES ARE REASONABLE

The Department of Social Services (department) is required to review and approve all contracts, contract amendments, and contract renewals for In-Home Supportive Services (IHSS). Although most of the contract costs that we analyzed for seven original IHSS contracts and five renewed IHSS contracts were reasonable, the department and the counties have not fully complied with the laws governing IHSS contracts nor ensured that the costs of these contracts are reasonable. Specifically, the department has not required counties to base the hourly reimbursement rates of their IHSS contractors during the renewal year of their contracts on documented costs as required by law. In addition, the department has not always thoroughly reviewed counties' contract amendments implementing cost of living allowances (COLAs) for the contract providers of IHSS, and it has not sufficiently ensured that counties monitor the accuracy of the invoices of their IHSS contractors. As a result, the department cannot be certain that the costs of IHSS contracts are reasonable, and some IHSS contracts have cost more than they should have. In one instance, the department and the City and County of San Francisco could have saved approximately \$26,000 of the county's \$8.2 million IHSS contract if the county had correctly applied an amendment to its IHSS contract for COLAs.

Hourly Reimbursement Rates for  
Contract Renewals Are Not  
Based on Documented Costs

Section 12302.1(a) of the Welfare and Institutions Code permits counties to contract with private organizations to provide IHSS, provided that the term of the contract does not exceed two years. Section 12302.1(a) also permits counties to renew their IHSS contracts for one year. The department is required to review and approve all IHSS contracts, contract amendments, and contract renewals.

Five of the six counties for which we reviewed IHSS contracts--Mendocino, Nevada, Riverside, and Santa Clara counties and the City and County of San Francisco--renewed their contracts. Appendix B presents the contractors for each county and the periods of time that the renewed contracts were in effect. We reviewed five of six renewed IHSS contracts. We could only review one of the two IHSS contracts renewed by Santa Clara County because neither the county nor the department required one of the county's contractors to submit a detailed budget of its expected revenues and expenses for the renewal year of the county's contract, as required by Section 10-203 of the department's Manual of Policies and Procedures. In addition, in three of the five counties, we could not fully review all of the contract costs that we selected for review because neither the counties nor the contractors could provide us with sufficient documentation for this purpose.

Counties select their IHSS contractors through a competitive bidding process for contracts exceeding \$10,000 annually, unless the department authorizes counties to use the request for proposal method. All of the counties in our review used the competitive bidding process. In this process, bidders for a county's IHSS contract compete against each other; usually, the winner is the bidder deemed by the county to be capable of providing the services desired at the lowest price. The county can award the contract to a bidder other than the lowest bidder if the department approves the award and certain conditions are met.

If a county decides to renew its IHSS contract, then it must negotiate an hourly reimbursement rate with its contractor for the renewal year of the contract; otherwise the county must rebid the contract. The hourly reimbursement rate that counties pay IHSS contractors for their services is equal to the sum of the expenses for all line items on the contractor's budget, which bidders must submit with their bids, divided by the maximum number of hours of service for which the county is contracting. The Welfare and Institutions Code, Section 12302.1(a), requires that a contractor's reimbursement rate for the renewal year reflect "the actual expenditures by the contractor as documented during the first contract term and approved by the state," as well as reasonably anticipated costs of the contractor in the renewal year. We conclude that Section 12302.1(a) requires counties to base the reimbursement rates of their IHSS contractors during a renewal year on the documented actual and anticipated costs of the contractors.

None of the five counties that renewed their IHSS contracts based the hourly reimbursement rates for their renewed contracts on all of the documented actual costs of the contractors during the first contract terms and on documented increases in the contractors' costs for the renewal year. Instead, the department allowed the counties to generally base their reimbursement rates for the renewal contracts on the rates that were in effect during the second year of the contracts and on cost increases anticipated by contractors that the counties considered reasonable. None of the counties required their contractor to document more than 10 percent of the budgeted costs for the renewal year. Thus, the department did not require the counties to obtain and use documentation of their contractors' actual costs and cost increases. As a result, the department and the counties cannot be certain that the contractors' reimbursement rates reflect only reasonable costs.

To determine whether the department's and counties' noncompliance with Section 12302.1(a) of the Welfare and Institutions Code resulted in reimbursement rates for contractors that significantly exceeded their documented actual costs or cost increases, we obtained documents from the counties' contractors that were available to the counties before or during the period when the counties negotiated the renewal year reimbursement rates with their contractors. Using the contractors' budgets for the five renewed contracts, we then analyzed selected line items for reasonableness. To determine whether the selected line item amounts were reasonable, we relied on the criteria

in Section 12302.1(a). Specifically, we determined a line item amount to be reasonable if it reflected documented actual costs during the first term of the contract and if any increase in the line item amount over the amount for the second year of the contract could be documented.

Most of the budgeted costs of IHSS contractors in the five renewed contracts that we reviewed were reasonable. In Mendocino, Nevada, and Riverside counties and in the City and County of San Francisco, we determined that the amounts for the line items that we reviewed were generally reasonable. However, for two of these four counties, Riverside County and the City and County of San Francisco, we could not review some line items that we had selected to review because of a lack of documentation. In addition, in Santa Clara County, for the one of its two renewed contracts that we reviewed, we could not determine whether any of the amounts for the line items were reasonable because neither the county nor the contractor could provide us with sufficient documentation for this purpose.

The chief of the department's contracts bureau stated that, during the period that we reviewed, the department's policy required counties to obtain documentation in some instances in which line items increased 10 percent or more over the budgeted amounts in the second year of the original contract. However, at the time that the contracts that we reviewed were renewed, the department had not implemented regulations concerning contractors' reimbursement rates for the renewal year of their contracts.

In August 1987, the department implemented new regulations concerning contractors' reimbursement rates for the renewal year of IHSS contracts. Section 23-621.161 of the department's Manual of Policies and Procedures requires counties, in negotiating renewal year reimbursement rates, to use "the actual expenditures by the contractor, as documented during the first contract term and approved by the county" and the department. Sections 23-621.168 and 23-621.169 require counties to document any cost increases in the line items in IHSS contractors' renewed contracts when negotiating contractors' reimbursement rates.

Cost of Living Allowances Are  
Not Always Properly Applied

From fiscal year 1983-1984 through fiscal year 1986-87, the Legislature annually appropriated funds to provide cost of living allowances (COLAs) for the providers of IHSS who worked for contractors. The department's directives to the counties concerning these COLAs specified a maximum percentage COLA for which the department would reimburse the counties for each of the four fiscal years. During these four fiscal years, the department approved 16 amendments implementing COLAs that were submitted by the six counties in our review. We found that most of the costs associated with these 16 COLA amendments were reasonable.

We reviewed the counties' implementation of the COLAs from fiscal year 1983-84 through fiscal year 1986-87 for the seven original IHSS contracts and five renewed IHSS contracts in our review. Counties correctly implemented 6 of the 16 COLA amendments that we reviewed. However, we could not determine whether the counties correctly implemented 3 of the other 10 COLA amendments, and, in Nevada, Riverside, Mendocino, and Santa Clara counties, and the City and County of San Francisco, the department approved amendments that did not properly implement the COLAs. In Mendocino and Nevada counties, the incorrect amendments had minimal fiscal effect. In Riverside County, we could not determine the effect of the 2 incorrect amendments. However, the incorrect amendments in the City and County of San Francisco and in Santa Clara County resulted in the department and the two counties missing opportunities to reduce the costs of their IHSS contracts.

In the City and County of San Francisco, the department approved one contract amendment to implement the 4 percent COLA for fiscal year 1985-86. This amendment included reimbursement to the contractor for costs related to bus passes used by the contractor's providers. However, the department's guidelines for COLA amendments allow for increases only in direct provider wages and benefits. As a result, the department missed an opportunity to reduce the cost of the City and County of San Francisco's \$8.2 million IHSS contract by approximately \$26,000.

In Santa Clara County, the county amended its IHSS contract to implement the 3 percent COLA for fiscal year 1984-85. However, the county's amendment specified a 3.5 percent COLA instead of a 3 percent COLA. The department did not identify this error and approved the amendment. As a result, the department missed an opportunity to reduce the cost of Santa Clara County's \$11.6 million IHSS contract by approximately \$23,000.

During our review of amendments implementing COLAs, we also determined that the department did not ensure that Santa Clara County implemented the COLA for fiscal year 1984-85 for both of its IHSS contractors. Thus, Santa Clara County implemented the COLA for fiscal year 1984-85 for only one of its IHSS contractors.

The department reviewed and approved all of the COLA amendments for the IHSS contracts that we reviewed. However, the department did not always thoroughly review the amendments to ensure that the amendments properly implemented COLAs.

#### Contractor Billings Are Not Always Accurate

Section 23-640 and Sections 10-150 through 10-153 of the department's Manual of Policies and Procedures require that counties monitor their IHSS contracts for contract compliance. The counties' IHSS contracts specify that contractors must bill counties for services provided and that the counties must pay their contractors for services

provided; the contracts have no provisions allowing counties to reimburse contractors for more services than the contractors provided. In addition, it is a department policy that counties should ensure that contractors' invoices accurately reflect services provided by the contractors.

In the six counties in which we reviewed IHSS contracts, the contractors periodically submitted invoices to the counties that specified the total number of hours of services for which the contractor claimed payment. With these invoices, each contractor also submitted a client-billing report that specified for each of the contractor's IHSS clients the number of hours of service for which the contractor billed the county. The specific number of hours of service for each client listed on the contractor's client-billing report came from the timesheet of the provider who actually provided the service to the client.

We reviewed invoices and related documents submitted by contractors to five counties during the original contract terms and to another county during its renewal contract term. Most of the costs that we reviewed were reasonable. For Humboldt County, Nevada County, Santa Clara County, and the City and County of San Francisco, four of the six counties for which we reviewed the IHSS contractors' invoices for accuracy, the contractors' client-billing reports were accurate. However, in the other two counties, Mendocino County and Riverside County, the contractors' client-billing reports were not accurate. In

Mendocino County, the overall effect of inaccuracies in the contractor's client-billing reports was an understatement in the number of hours of service claimed in the county.

In Riverside County, where we randomly selected and reviewed the hours reported for 81 of the 10,183 clients listed on the client-billing reports submitted by the IHSS contractor for services provided between January 6, 1986, and July 22, 1986, the hours reported for 8 (9.9 percent) of the 81 clients were inaccurate. In 7 instances, the contractor claimed more hours of service than were justified; in the other instance, the contractor claimed fewer hours of service than were justified. Overall, these 8 errors resulted in the contractor claiming 45.5 more hours of service than the contractor's providers delivered according to their timesheets, or an average overstatement of 5.7 hours for each client.

Eight of the 14 errors (57 percent) that we identified on the contractors' client-billing reports in Mendocino and Riverside counties were due to the contractors' staff not correctly transferring the reported hours of service listed on providers' timesheets to the client-billing reports. The remaining 6 errors were due to addition errors on providers' timesheets.

In a report that we issued in March 1987 concerning the IHSS program, we reported that some counties had overpaid IHSS providers because of addition errors on timesheets. (We provide a summary of our

March 1987 report in Appendix C.) We recommended to the department that it require counties to ensure the accuracy of IHSS providers' timesheets and that the department periodically review the timesheets of counties' IHSS providers to ensure that counties were meeting this requirement. In response to our report, the department issued All-County Letter 87-96, which specified the counties' responsibilities concerning the processing of IHSS providers' timesheets and requested that counties submit to the department a copy of the counties' procedures for timesheet verification. In addition, in January 1988, the department sent follow-up letters to counties that had not yet submitted their timesheet verification procedures, requesting that these counties submit their procedures. Further, the director of the department stated in a March 1988 letter to the Office of the Auditor General that the department was preparing an agreement with the State Controller's Office concerning reviews of providers' timesheets; the agreement would require the State Controller's Office to audit the mathematical accuracy of IHSS providers' timesheets as part of its audit of IHSS contracts for fiscal year 1988-89.

We reviewed the timesheet verification procedures submitted to the department for the six counties in our review and reviewed all available documentation in these counties concerning their procedures for ensuring that their contractors' invoices accurately reflect services provided by the contractors' providers. In four of the six counties, Mendocino, Nevada, Riverside, and Santa Clara, the counties did not have procedures to ensure the accuracy of their contract

providers' timesheets and to ensure that the contractors had correctly transferred the reported hours served on their providers' timesheets to their client-billing reports. Two of the six counties, Humboldt County and the City and County of San Francisco, did have procedures for ensuring the accuracy of their contractors' invoices.

Counties that do not periodically verify the accuracy of their contractors' invoices cannot be certain that these invoices are accurate. If the invoices of IHSS contractors overstate the number of hours of service provided to IHSS clients and counties do not adjust these invoices to accurately reflect services provided, then counties' payments to their contractors will exceed necessary and reasonable program costs.

Although the department has taken some steps to help ensure that counties monitor the accuracy of the timesheets of IHSS contract providers, the department has not required counties to monitor the accuracy of the information transferred from the providers' timesheets to the IHSS contractors' client-billing reports, and the department has not reviewed the effectiveness of the counties' current monitoring efforts during the terms of the counties' contracts.

## CONCLUSION

Most of the costs related to contracts for In-Home Supportive Services that we analyzed were reasonable. However, the Department of Social Services has not required counties to base their contractors' reimbursement rates for renewed contracts on documented costs, as required by law. In addition, the department has not always thoroughly reviewed counties' contract amendments implementing cost of living allowances for the contract providers of IHSS, and it has not sufficiently ensured that counties monitor the accuracy of the invoices of their IHSS contractors. As a result, the department cannot be certain that the costs of these contracts are reasonable, and some IHSS contracts have cost more than they should have.

## RECOMMENDATIONS

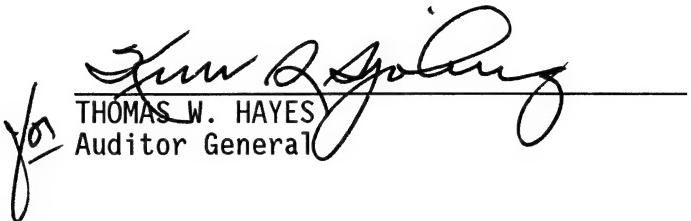
To help ensure that counties fully comply with the laws governing contracts for In-Home Supportive Services and that the costs of these contracts are reasonable, the Department of Social Services should take the following actions:

- For the renewal year of IHSS contracts, require counties to base their contractors' reimbursement rates on documented costs;

- Ensure that cost of living allowances in counties' amendments to their IHSS contracts are properly implemented;
- Require counties, during the terms of their contracts, to monitor the accuracy of their contractors' invoices, especially information transferred from timesheets, and take corrective action when the invoices are not accurate; and
- Continue with its plans for post-contract audits by the State Controller's Office and periodically review the counties' monitoring programs and corrective actions during the terms of the counties' IHSS contracts.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

Date: September 19, 1988

Staff: William S. Aldrich, Audit Manager  
John Billington  
Paul Carrigan  
Rene Gutierrez  
Keith Kuzmich  
Steven Cho  
Duane Butler  
Deborah D'Ewart

ESTIMATED REIMBURSEMENT RATES FOR CONTRACTS  
FOR IN-HOME SUPPORTIVE SERVICES IN SIX COUNTIES  
DURING VARIOUS PERIODS FROM 1985 THROUGH 1988

| County:                                      | <u>Fiscal Year 1986-87</u>                     |                                   | <u>January 5, 1987</u>    | <u>September 1, 1985</u>          | <u>December 1, 1985</u>                  | <u>December 1, 1985</u>  |
|--|--|-----------------------------------|---------------------------|-----------------------------------|--|--------------------------|
|  | <u>Humboldt</u>                                | <u>Mendocino</u>                  | <u>January 3, 1988</u>    | <u>August 31, 1986</u>            | <u>November 30, 1986</u>                 | <u>November 30, 1986</u> |
| Contractor:                                  |  |                                   | <u>Riverside</u>          | <u>San Francisco</u>              | <u>Santa Clara</u>                       | <u>Santa Clara</u>       |
| BASICS Health Service, Inc.                  | Inhome Healthcare of Northern California, Inc. | Upjohn Health Care Services, Inc. | Health Conservation, Inc. | Remedy Home and Health Care, Inc. | Staff Builders Northern California, Inc. | The Olsten Corporation   |
| Estimated Hours of Service                   | 300,000  | 226,225                           | 36,000                    | 505,000                           | 720,000                                  | 420,000                  |
| Estimated Contract Value                     | \$1,863,618.33                                 | \$1,374,610.00                    | \$274,974.00              | \$3,621,677.00                    | \$6,540,429.00                           | \$4,184,430.00           |
| Contractor's Hourly Labor Rates              |  |                                   |                           | **                                | **                                       | **                       |
| Provider's wage rates                        | \$4.05   | \$4.11                            | \$4.43                    | \$4.66                            | \$5.42                                   | \$5.97                   |
| Administrative wage rates                    | .30  | .46                               | .82                       | .38                               | .55                                      | .63                      |
| Rates for other labor costs                  | 1.29   | 1.19                              | 1.19                      | 1.52                              | 2.62                                     | 3.05                     |
| Hourly Rates for Contractors' Nonlabor Costs | <u>.57</u>                                     | <u>.31</u>                        | <u>1.20</u>               | <u>.61</u>                        | <u>.49</u>                               | <u>.31</u>               |
| Total Hourly Rates                           | <u>\$6.21</u>                                  | <u>\$6.07</u>                     | <u>\$7.64</u>             | <u>\$7.17</u>                     | <u>\$9.08</u>                            | <u>\$9.96</u>            |

\* The Olsten Corporation, one of Santa Clara County's two contractors, was not required to submit a line item budget by Santa Clara County or the department.

\*\* The wages and benefits of these contractors' providers are set by collective bargaining between the contractors and unions representing the providers.

**CONTRACTORS FOR IN-HOME SUPPORTIVE SERVICES  
FOR VARIOUS PERIODS FROM DECEMBER 1, 1983 TO JUNE 30, 1988**

| <u>County</u> | <u>Contractor</u>                               | <u>Term of Original Contract</u> | <u>Term of Renewed Contract</u> |
|---------------|---|----------------------------------|---------------------------------|
| Humboldt      | BASICs Health Service, Inc.                     | 07/01/86 - 06/30/87              | Not Renewed                     |
| Mendocino     | Inhome Healthcare of Northern California, Inc.* | 07/01/85 - 06/30/87              | 07/01/87 - 06/30/88             |
| Nevada        | Upjohn Health Care Services, Inc.               | 08/01/84 - 06/30/86              | 07/01/86 - 06/30/87             |
| Riverside     | Health Conservation, Inc.                       | 01/07/85 - 01/04/87              | 01/05/87 - 01/03/88             |
| San Francisco | Remedy Home and Health Care, Inc.               | 08/16/83 - 08/31/85              | 09/01/85 - 11/30/86             |
| Santa Clara** | Staff Builders Northern California, Inc.        | 12/01/83 - 11/30/85              | 12/01/85 - 11/30/86             |
| Santa Clara** | The Olsten Corporation                          | 12/01/83 - 11/30/85              | 12/01/85 - 11/30/86             |

\* Formerly Homemaker Services of Northern California, Inc.

\*\* Santa Clara County contracted with two contractors concurrently during the period of our review.

## APPENDIX C

### **SUMMARY OF A PREVIOUS REPORT BY THE OFFICE OF THE AUDITOR GENERAL CONCERNING THE IN-HOME SUPPORTIVE SERVICES PROGRAM**

In March 1987, the Office of the Auditor General issued a report on the In-Home Supportive Services (IHSS) program entitled "The Department of Social Services Could Reduce Costs and Improve Compliance With Regulations of the In-Home Supportive Services Program" (Report P-630). Report P-630 focused on the counties' and the Department of Social Services' (department) monitoring of costs associated with the IHSS program, county welfare departments' compliance with state laws and department regulations in beginning and supervising IHSS cases, and on the screening, hiring, and supervising of providers. The report concluded that two of three counties in our review had overpaid their IHSS providers because the counties had not sufficiently monitored billings, that three counties did not know whether IHSS providers actually provided the services for which they claimed payments, and that some providers had criminal convictions, which would make them ineligible to serve as providers in one of the department's programs that has a clientele similar to that of the IHSS program.

We recommended in Report P-630 that the department take the following actions:

- Ensure that counties verify the accuracy of timesheets submitted by both individual and contract providers and that counties do not pay contractors for performing more hours of service than clients are authorized to receive;
- Ensure that counties annually reassess the continuing needs of IHSS clients as required by state law and that counties review a sample of the timesheets of individual and contract providers at least once each quarter to compare the client's signature on the timesheet to the client's signature on the application for services; and
- Conduct a study on the feasibility of obtaining information on the criminal convictions of all IHSS providers, and report the findings of this study to the Legislature.

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



September 7, 1988

Thomas W. Hayes, Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

OFFICE OF THE AUDITOR GENERAL'S (AGO) REPORT ENTITLED "A REVIEW OF CALIFORNIA'S CONTRACTS FOR IN-HOME SUPPORTIVE SERVICES (P-712)"

Mr. Clifford Allenby, Secretary, Health and Welfare Agency, has asked me to review and comment on the above referenced draft report. The Department of Social Services' comments, in response to the recommendations made in this report, are enclosed.

It is our understanding that the scope of this audit was to focus on the propriety and the integrity of the competitive bid process. Although the report does not specifically mention these factors, it is the Department's understanding that the competitive bid process utilized by the Department was found to be in order.①\*

We appreciate the opportunity you have provided for us to review and respond to the audit recommendations prior to the finalization of this report.

If you have any questions regarding our comments, please contact me at (916) 445-2077, or have your staff contact Mr. Robert L. Garcia, Deputy Director, Administration, at (916) 445-4622.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda S. McMahon".

LINDA S. McMAHON  
Director

Enclosure

\*The Office of the Auditor General's comments on specific points contained in this response appear on page 45.

DEPARTMENT OF SOCIAL SERVICES' (DSS) RESPONSE

The following is the DSS' comments concerning the report of the Auditor General's Office (AGO) entitled "A REVIEW OF CALIFORNIA'S CONTRACTS FOR IN-HOME SUPPORTIVE SERVICES (P-712)."

Item 1: "THE DEPARTMENT OF SOCIAL SERVICES AND THE COUNTIES DID NOT ALWAYS FOLLOW THE PROVISIONS GOVERNING CONTRACTS FOR IN-HOME SUPPORTIVE SERVICES."

AGO Recommendation: "The Department of Social Services should enforce the deadlines specified in the department's regulations for counties to submit documents related to contracts for In-Home Supportive Services, and enforce deadlines for the department to approve these documents."

DSS Response: The DSS concurs. Since State Fiscal Year (SFY) 1986-87, the Invitation for Bid (IFB) and contracts approval processes have changed. In order to comply with required timeframes, the DSS instituted the use of an IHSS Model Contract and is developing an IHSS Model IFB. The Manual of Policies and Procedures (MPP), Section 23-600, et. seq., defines required timeframes for submittal, review, and approval of documents at the various stages of the IFB and contract processes. As part of the review and approval process, the DSS withholds claiming clearance until a copy of the fully executed IHSS contract is received. All contracts effective July 1, 1988 were approved prior to the start date. The AGO's concern focuses on the reimbursement for costs incurred prior to claiming clearance being granted since, in accordance with MPP, Section 23.630.8, an IHSS contract is not considered valid until approval has been granted by the State. Although DSS agrees with the AGO's finding, we feel that it is mitigated by the fact that the DSS has, in all cases, approved the contents of the contract prior to its effective date. In general, only minor technical issues or documentation must be addressed prior to final claiming clearance approval.

The DSS must emphasize that it is not in the public interest to delay commencement of a contract due to technicalities, since a break in the continuity of services may put recipients in need of IHSS "at risk" of being unable to remain safely in their own homes.②

The DSS will include in an All County Letter (ACL) that in the future, in accordance with MPP, Section 23.630.6, Counties will not receive reimbursement for costs incurred prior to the issuance of claiming clearance regardless of the date the contract was executed at the County level. It will also be noted that in order for the DSS to issue claiming clearance in a timely manner, the Contractor, County, and State must meet the mandated timeframes for review and approvals at the various stages of the IFB and Contracts processes.

AGO Recommendation: "The Department of Social Services should authorize reimbursements only to counties that have approved IHSS contracts and for no more than the counties' contract maximums."

DSS Response: The DSS concurs. In addition to taking action, which will result in the recovery of the excessive reimbursement provided to the one County identified by the AGO, the DSS compared allowed expenditures with authorized reimbursement levels for all IHSS contractors for the SFYs 1984-85 through 1987-88 and determined that no other County had received excessive total reimbursement. Finally, the DSS clarified its desk audit procedures and tracking forms so that claimed costs are clearly tracked by contract number and no costs are allowed unless supported by a claiming clearance letter which indicates that the contract has been fully executed.

Item 2: "THE DEPARTMENT OF SOCIAL SERVICES AND THE COUNTIES HAVE NOT FULLY ENSURED THAT COSTS OF CONTRACTS FOR IN-HOME SUPPORTIVE SERVICES ARE REASONABLE.

AGO Recommendation: "The Department of Social Services should, for the renewal year of IHSS contracts, require counties to base their contractors' reimbursement rates on documented costs."(3)

DSS Response: The DSS disagrees that the third year negotiated rate must be based solely on documented contract costs.

The DSS' regulations specify that the County shall assure that all increases in costs are reasonable and necessary to the continuation of the contract. These regulations are now being applied.

The DSS does not require County Welfare Departments to obtain all-inclusive documentation of the contractor's actual expenditures during the first contract term (i.e., require an audit) to use as the basis for negotiating a new rate for a third year renewal. The DSS does not have the responsibility or authority for making such a requirement, nor does DSS believe such responsibility or authority is necessary, for the following reasons:

- a) The IHSS contracts are fixed-rate contracts, awarded through competitive bid. If a contractor is able to perform the contract at a cost that is less than bid in any or all line items, it is in the contractor's business interest to do so. (The contractor would be in an even better competitive position during the next bid process). Such additional profit is permissible since the contract was originally awarded through competitive bid. The adjustment of line items downward during the renewal process would remove cost efficiency incentives that could ultimately result in a lower bid and avoidance of government costs at the next round of competitive bidding.
- b) During negotiation of renewals, the contractor, in accordance with MPP, Section 23-622.3, must provide documented justification for any line item increases requested. Guidelines for negotiating the additional period are provided in the MPP, Section 23-621.16, which includes the use of actual contractor expenditures as documented during the first contract term and allowances for other reasonable costs or increases in cost over which the contractor has no control. We believe the aforementioned guidelines and requirements provide sufficient assurances that State/Federal/County funds are expended efficiently and effectively.

- c) The IHSS to elderly, blind, or disabled recipients by definition must be needed in order for the recipient to remain safely in his/her home. Therefore, it is crucial that there be no break in services between contracts, renewals, etc. It is not feasible to wait for the results of an audit after the first term (2 years) has ended before the renewal can be negotiated and services can resume.

AGO Recommendation: "The Department of Social Services should ensure that cost of living allowances in counties' amendments to their IHSS contracts are properly implemented."

DSS Response: The DSS concurs and has taken action to ensure this recommendation is effectively implemented.

With the issuance of a model contract, the DSS has a standardized budget, as well as a budget narrative to justify how calculations were made. The DSS has implemented an electronic spreadsheet application to calculate Cost of Living Allowances (COLA) increases in accordance with provisions of the Annual Budget Act. Calculations can now be completed accurately to ensure that proper line items are included and calculated properly as submitted by the County for approval. In addition, the DSS has implemented single purpose amendments to ensure that issues remain independent and justified and provide a clear audit trail.

Finally, for all future COLAs, the DSS will issue an ACL to ensure that COLA amendments are properly implemented.

AGO Recommendation: "The Department of Social Services should require counties, during the terms of their contracts, to monitor the accuracy of their contractors' invoices, especially information transferred from timesheets, and take corrective action when the invoices are not accurate."

DSS Response: The DSS concurs and will issue an ACL which will both reiterate the Counties' responsibilities regarding the processing of IHSS provider timesheets as well as impose a due date for submittal of the Counties' procedures for timesheet verification. In addition, the ACL will require County auditors to monitor accuracy of timesheets (especially contract invoices and timesheets) against the contractor's timesheets and those items billed to Counties. Finally, the ACL will require Counties to ensure that paid hours do not exceed authorized hours.

AGO Recommendation: "The Department of Social Services should continue with its plans for post contract audits by the State Controller's Office and periodically review the counties monitoring programs and corrective actions during the terms of the counties' IHSS contracts."

DSS Response: The DSS concurs. In order to assess the accuracy of claimed costs and ensure that Counties take needed corrective action, the DSS has continued its contract with the State Controller's Office. The SFY 1988-89 contract language requires that "The audit shall encompass a review of funds paid through the IHSS program payroll systems including, but not limited to, an examination of payroll documents (provider timesheets) for all three methods of delivery to ensure they are properly signed, mathematically

accurate, and do not authorize payment for services which exceed the negotiated hourly rate and/or the authorized level(s) of service. The audit report will contain a separate section which details findings in this area and includes a statement regarding the adequacy of County internal controls and an identification of disallowances, if any, resulting from payments in excess of the negotiated rate and/or authorized level(s) of service."

Finally, the DSS, in conjunction with the County Welfare Director's Association, Contract Subcommittee, has been working on standardization of County monitoring processes. The DSS will include a requirement in an ACL for all contracting Counties to submit their contract monitoring programs to DSS for review.

**THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS  
ON THE RESPONSE OF THE DEPARTMENT OF SOCIAL SERVICES**

We are commenting on the Department of Social Services' response to our audit report to provide clarity and perspective to the department's exceptions to our report. The numbers correspond to numbers we have placed in the department's response.

- (1) We state on page 4 of our report that the counties included in our review generally complied with the applicable statutes and regulations for selecting contractors.
- (2) As we explain on pages 10 and 11 of our report, the interests of IHSS recipients, the counties, and the State are best served when counties' IHSS contracts are approved before contractors provide services. In addition, if the department approves IHSS contracts before the effective date of the contracts, then IHSS recipients are at less risk of facing a break in services.
- (3) We did not say that the third year negotiated rate should be based solely on documented cost. Furthermore, as stated on page 19 of our report, we conclude that Section 12302.1(a) of the Welfare and Institutions Code requires counties to base the reimbursement rates of their IHSS contractors during the renewal year of their contracts on the documented actual and reasonably anticipated costs of the contractors. In addition, as we explain on page 22 of our report, the department's own manual of policies and procedures requires counties, in negotiating renewal year reimbursement rates, to use "the actual expenditures by the contractor, as documented during the first contract term and approved by the county" and the department.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps